

# 2014 FINANCE LAW CHANGES

Presented to the Revenue Laws Study Committee  
Cindy Avrette and Trina Griffin, NCGA Research Division  
October 14, 2014

# 2014 Session At A Glance

## House Bill 1050, S.L. 2014-3

- Sales tax clarifications
- Retailer-contractor
- Corporate NEL
- Central assessment of telecomm property
- ABC permits
- Vapor cigarettes
- Privilege license tax

## All other bills

- Income tax refund check-off
- Sales tax exemption for manufactured homes
- Cape Hatteras EMC & gas cities
- Clarify CIT rate trigger
- Tax cases in business court

# Income Tax Changes



# Deduction for State Net Loss (CIT)

- 2015 and thereafter: State net loss deduction that is more comparable to the federal NOL deduction
  - ▣ Tax deductible expenses are more than taxable revenues, rather than all revenues
  - ▣ Retain 15 carry-forward provision; no carry back
  - ▣ Instructs DOR to apply federal standards re: mergers and acquisitions
- NEL carry-forwards from previous tax years
  - ▣ Removes requirement that NEL be offset by nontaxable income

# Income Tax Refund Check-off (PIT)

- ❑ Contribution of income tax refund
- ❑ Wildlife Conservation Account, since 1983
- ❑ NC Education Endowment Fund for teacher compensation

	Code	Amount
California Sea Otter Fund . . . . .	• 410	00
Municipal Shelter Spay-Neuter Fund . . . . .	• 412	00
California Cancer Research Fund . . . . .	• 413	00
ALS/Lou Gehrig's Disease Research Fund . . . . .	• 414	00
Child Victims of Human Trafficking Fund . . . . .	• 419	00
California YMCA Youth and Government Fund . . . . .	• 420	00
California Youth Leadership Fund . . . . .	• 421	00
School Supplies for Homeless Children Fund . . . . .	• 422	00
State Parks Protection Fund/Parks Pass Purchase . . . . .	• 423	00



# CIT Rate Trigger – GF Tax Collected

## Rate Trigger

- ❑ State's Comprehensive Annual Financial Report
- ❑ Several different reports
- ❑ None of the reports are the ones used to develop budget availability

## Clarified Rate Trigger

- ❑ Report used by the General Assembly
- ❑ Net revenue reported by DOR
  - ▣ Less large, one-time, non-recurring revenue
  - ▣ Adjusted by changes resulting from suspension or termination of transfers out of the General Fund

# What is the CIT Rate?



**Revised General  
Fund tax revenue  
forecast for FY 14-15  
is \$19,972.1**

- 2014 = 6%
- 2015 = 5%
- 2016 = 4% **IF** net General Fund **tax** revenue for FY14-15 meets the target amount of \$20.2 billion
- 2017 = another 1% rate reduction if FY15-16 General Fund **tax** revenue meets the target amount of \$20.975 billion

# Sales Tax Changes





# Agricultural Exemption



- Three-year income averaging
- New farmer conditional exemption certificate
- Revenue Laws  
Technical Changes:  
Gross sales plus all other income from farming operations

# Prepaid Meal Plans

- Differentiate between meal swipes and food dollars
- Source local sales tax dollars to location of school
- Optional reporting requirement for food service contractor



# Admissions



- Repealed exemptions
  - ▣ State attractions
  - ▣ Nonprofits
  - ▣ Agricultural fairs
- Clarified transactions not subject to tax
- Reporting options
  - ▣ Facilitators
  - ▣ Dual remittance

# Service Contracts

- Clarified definition of service contract
- Reporting options
  - ▣ Obligator
  - ▣ Facilitator
- Refund of tax paid
  - ▣ Rescinded sale
  - ▣ Cancellation of service
- Clarified basis of highway use tax



# Sales Tax Base Expansion Changes

## Modular Homes/Mobile Homes

- Sales tax exemption equal to  $\frac{1}{2}$  of sales price

## Electricity/Gas Cities

- Cape Hatteras EMC
  - ▣ Exempt from sales tax
  - ▣ Rate reduced to 3.5% for 2014-15
- Eight gas cities
  - ▣ Exempt from excise tax on piped natural gas
  - ▣ Rate reduced to 3.5% for 2014-15

# Retailer-Contractors

- Eff. 1/1/15, sales tax applies to sales price of items sold to a real property contractor when the item is used by the contractor for a real property improvement.
- The item must “become” part of the real property.
- Law will likely change how many items are taxed (e.g. carpet, dishwashers, certain plumbing fixtures, water heaters, etc.)



# Excise Tax Changes





# Tax on Vapor Products

- Effective June 1, 2015 imposes new tax of 5¢ per mL of consumable material.
  - ▣ Administered as OTP tax.
  - ▣ No discount.
  - ▣ Wholesale dealers - \$25 license fee.
  - ▣ Retail dealers - \$10 license fee.





# ABC Permit and Tax Compliance

- Require retailers of alcoholic beverages to be in compliance with NC tax laws
  - ▣ Sales tax
  - ▣ Income tax withholding
- Non-compliance statistics
  - ▣ Restaurants, 34%
  - ▣ Bars, 39%
  - ▣ Grocery stores, 34%
- Process largely automated
  - ▣ ABC Commission and DOR working together
  - ▣ Retailers not in compliance directed back to DOR



# Miscellaneous Excise Tax Changes

## Highway Use Tax

- Base expanded to include dealer administrative fees
  - ▣ January 1, 2014
  - ▣ July 1, 2014
  - ▣ October 1, 2014

## Motor Fuel Excise Tax

- Repeals the quarterly refund for the tax paid for taxicabs
- January 1, 2015
- \$69,420 for FY14-15

# Administrative Issues



*North Carolina*  
Office of Administrative  
Hearings



North Carolina  
**Business Court**

# Tax Cases in Business Court

- All tax cases must be designated as “complex business cases,” even if the case does not involve anything business-related.
- BUT conflicting budget provision requires constitutional challenges to facial validity of a statute to be heard by 3-judge panel in Wake County Superior Court (technical correction)
- Appeals will bypass Court of Appeals and go directly to NC Supreme Court.

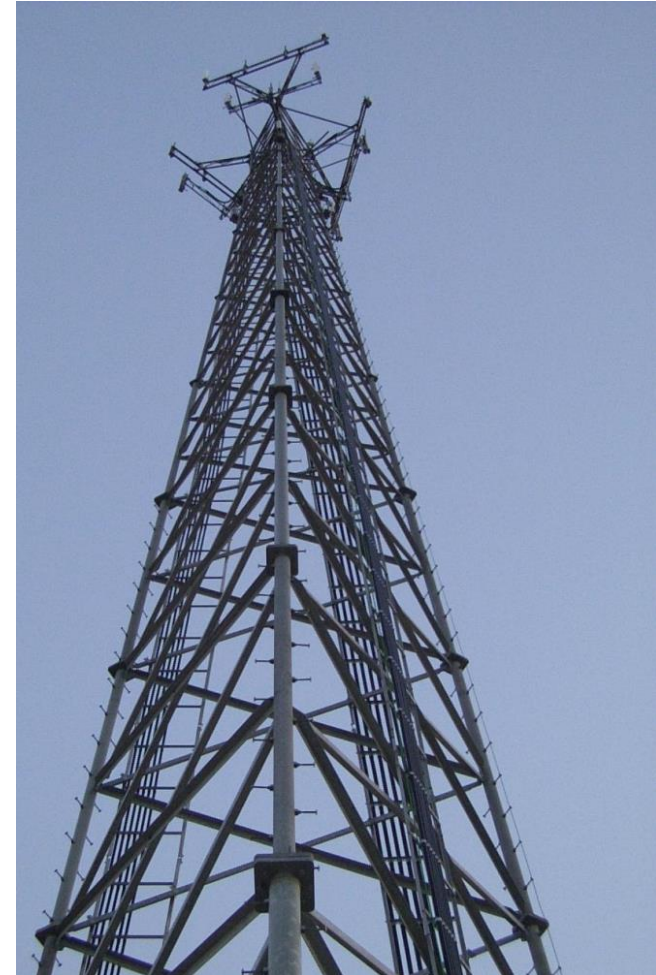


# Property Tax



# Central Assessment of Telecom Property

- Effective July 1, 2015, the Department will be responsible for valuing mobile telecommunications property, including cell towers.
- Real property would continue to be assessed locally in each county.
- No intent to shift values among the counties.







# Privilege License Taxes

- Local PLT maintained for 1 more year with 2 modifications: (1) a city may not increase the tax; and (2) a city may not tax a business outside city limits.
- For tax years beginning on or after July 1, 2015, county and city local PLT authority is repealed.
- No State PLTs were repealed, including “personal” professional licenses.



# Privilege License Taxes

- Effective date oddities:
  - ▣ At least 53 cities have budgeted PLT revenue in their 14-15 budgets that they will not be able to collect.
  - ▣ A city with a PLT year beginning prior to July 1 may levy a PLT next year, charge for the full year, and issue a license (10 cities).
  - ▣ A city with a PLT year that begins prior to July 1 that accrues revenue on a deferred basis will get an extra year of PLT revenue (no known cities).

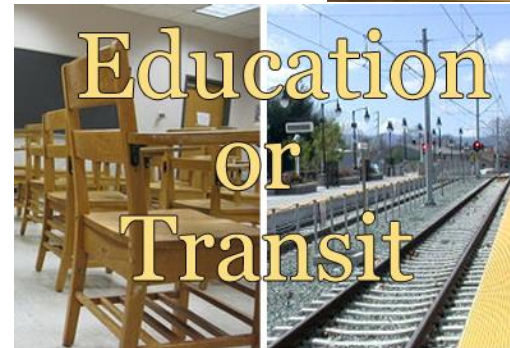
What Could Have Been...

...And What Is Yet To Come



# Gonna Pass or (Sine) Die Trying

- HB 1224
  - ▣ Would have expanded JDIG and created a new Job Catalyst Fund. JMAC changes passed in SB 3.
  - ▣ Would have given counties addl. local sales tax options
- Revenue Laws Technical Changes



Cindy Avrette

[cindy.avrette@ncleg.net](mailto:cindy.avrette@ncleg.net)

(919) 733-2578

Trina Griffin

[trina.griffin@ncleg.net](mailto:trina.griffin@ncleg.net)

(919) 733-2578